

CENTRAL LEE COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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Central Lee Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2007 Election)		
Robert Galle	President	2008
Dennis Krehbiel	Vice President	2007
Verna Brunstein	Board Member	2009
John Johnson	Board Member	2007
Robert Bryant	Board Member	2008

Board of Education (After September 2007 Election)		
Robert Galle	President	2008
Robert Bryant	Vice President	2008
Verna Brunstein	Board Member	2009
John Johnson	Board Member	2010
Larry Engler	Board Member	2010

School Officials		
John Henriksen	Superintendent	2008
Sandra Meierotto	District Secretary and Business Manager	2008
Sharon Bradley	District Treasurer	2008
Gruhn Law Firm	Attorney	2008
James Miller	Attorney	2008

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(a professional corporation)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Central Lee Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Central Lee Community School District, Donnellson, Iowa as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Central Lee Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

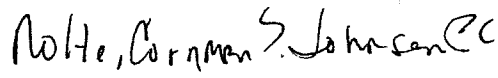
In accordance with Government Auditing Standards, we have also issued our report dated February 17, 2009 on our consideration of the Central Lee Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Central Lee Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

February 17, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Central Lee Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$8,774,963 in fiscal 2007 to \$9,048,844 in fiscal 2008, while General Fund expenditures increased from \$8,676,327 in fiscal 2007 to \$8,937,093 in fiscal 2008. The District's General Fund balance increased from a deficit fund balance of \$132,594 in fiscal 2007 to a deficit fund balance of \$20,235, an 84.74% increase.
- The increase in General Fund revenues was mainly attributable to increases in state grant revenues and tuition revenues in fiscal 2008. The increase in expenditures was due primarily to an increase in regular and special instruction expenditures.
- The District ended the 2007-08 school year with a negative 0.48% solvency ratio, which is an improvement from the negative 1.79% solvency ratio the District had the previous year.
- According to the Department of Management, the District finished the 2008 year with an unspent balance authority of \$133,814 not including any adjustment for special education deficit allowable growth.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Central Lee Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Central Lee Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Central Lee Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Central Lee Community School District Annual Financial Report

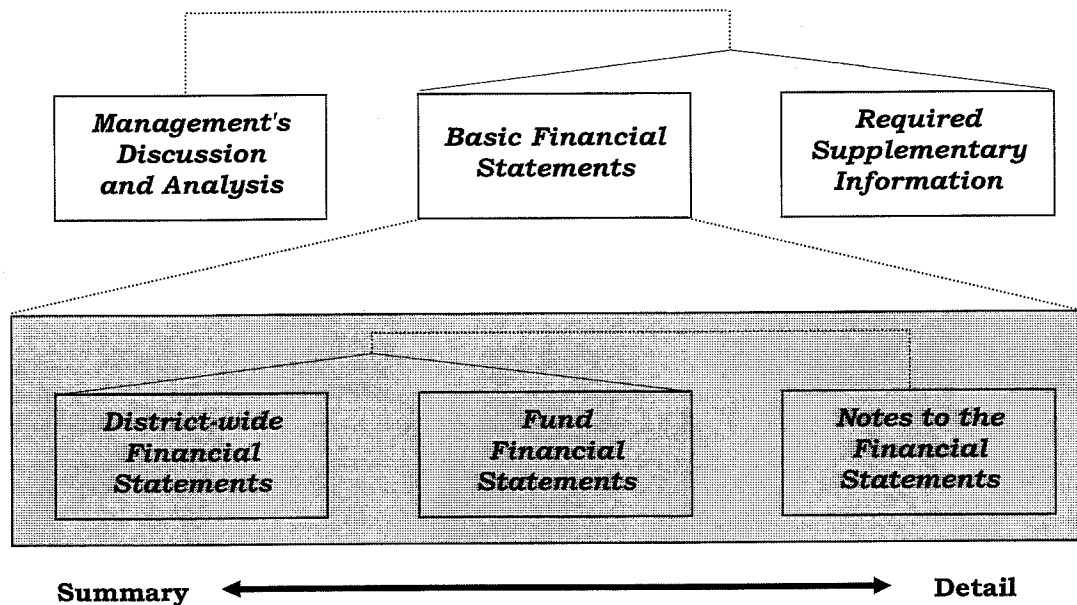


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service, and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 7,412,557	6,976,321	20,995	52,829	7,433,552	7,029,150	5.75%
Capital assets	6,602,679	6,817,325	25,545	32,056	6,628,224	6,849,381	-3.23%
Total assets	14,015,236	13,793,646	46,540	84,885	14,061,776	13,878,531	1.32%
Long-term obligations	1,424,957	1,694,207	0	0	1,424,957	1,694,207	-15.89%
Other liabilities	5,939,845	5,543,030	4,431	4,458	5,944,276	5,547,488	7.15%
Total liabilities	7,364,802	7,237,237	4,431	4,458	7,369,233	7,241,695	1.76%
Net assets:							
Invested in capital assets, net of related debt	5,373,184	5,127,639	25,545	32,056	5,398,729	5,159,695	4.63%
Restricted	1,224,538	1,308,838	0	0	1,224,538	1,308,838	-6.44%
Unrestricted	52,712	119,932	16,564	48,371	69,276	168,303	-58.84%
Total net assets	\$ 6,650,434	6,556,409	42,109	80,427	6,692,543	6,636,836	0.84%

The District's combined net assets increased by \$55,707 or 0.84% over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$84,300 or 6.44% compared to the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$99,027 or 58.84%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to the year ended June 30, 2007.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for services	\$ 1,482,896	1,347,788	192,851	192,170	1,675,747	1,539,958	8.82%
Operating grants and contributions and restricted interest	1,124,364	989,661	178,740	184,499	1,303,104	1,174,160	10.98%
Capital grants and contributions and restricted interest	0	25,000	0	0	0	25,000	-100.00%
General revenues:							
Property tax	2,358,123	2,306,316	0	0	2,358,123	2,306,316	2.25%
Income surtax	333,066	390,170	0	0	333,066	390,170	-14.64%
Local option sales and service tax	669,090	682,005	0	0	669,090	682,005	-1.89%
Unrestricted state grants	4,162,699	4,143,140	0	0	4,162,699	4,143,140	0.47%
Other	164,109	170,391	804	775	164,913	171,166	-3.65%
Total revenues	10,294,347	10,054,471	372,395	377,444	10,666,742	10,431,915	2.25%
Program expenses:							
Governmental activities:							
Instructional	6,895,466	6,386,131	0	0	6,895,466	6,386,131	7.98%
Support services	2,606,131	2,565,697	2,569	2,141	2,608,700	2,567,838	1.59%
Non-instructional programs	0	0	408,144	370,962	408,144	370,962	10.02%
Other expenses	698,725	634,083	0	0	698,725	634,083	10.19%
Total expenses	10,200,322	9,585,911	410,713	373,103	10,611,035	9,959,014	6.55%
Change in net assets	94,025	468,560	(38,318)	4,341	55,707	472,901	-88.22%
Net assets beginning of year	6,556,409	6,087,849	80,427	76,086	6,636,836	6,163,935	7.67%
Net assets end of year	\$ 6,650,434	6,556,409	42,109	80,427	6,692,543	6,636,836	0.84%

In fiscal 2008, property tax, income surtax, local option sales and service tax and unrestricted state grants account for 73.08% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.78% of the revenue from business type activities.

The District's total revenues were approximately \$10.66 million of which \$10.29 million was for governmental activities and \$0.37 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 2.25% in revenues and a 6.55% increase in expenses. The increase in expenses was related to the increase in the negotiated salaries and benefits during the year.

Governmental Activities

Revenues for governmental activities were \$10,294,347 and expenses were \$10,200,322.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5

Total and Net Cost of Governmental Activities						
	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 6,895,466	6,386,131	7.98%	4,610,438	4,375,889	5.36%
Support services	2,606,131	2,565,697	1.58%	2,600,451	2,549,309	2.01%
Other expenses	698,725	634,083	10.19%	382,173	298,264	28.13%
Totals	<u>\$ 10,200,322</u>	<u>9,585,911</u>	<u>6.41%</u>	<u>7,593,062</u>	<u>7,223,462</u>	<u>5.12%</u>

- The cost financed by users of the District's programs was \$1,482,896.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,124,364.
- The net cost of governmental activities was financed with \$2,358,123 in property tax, \$333,066 in income surtax, \$669,090 in local option sales and service tax, \$4,162,699 in unrestricted state grants, \$126,486 in investment interest and \$37,623 in other revenue.

Business-Type Activities

Revenues of the District's business-type activities were \$372,395 and expenses were \$410,713. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Central Lee Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,198,801, above last year's ending fund balances of a \$1,156,359.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Growth during the year in state grants and tuition resulted in an increase in revenues. However, expenditures increased in the instruction, support services and other expenditures functions.
- The General Fund balance increased from a deficit of \$132,594 to a deficit of \$20,235, due in part to the increase in revenues being more than enough to offset the increase in expenditures during the year.
- The Capital Projects balance decreased from \$437,366 to \$373,891, due in part to the decrease in local tax and federal sources of revenue.
- The Debt Service Fund balance increased from \$498,135 to \$556,574. Transfers of \$612,116 from the PPEL and Capital Projects Fund were used to help pay the \$566,717 of debt related expenditures.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$80,427 at June 30, 2007 to \$42,109 at June 30, 2008, representing a decrease of approximately 47.64%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$94,459 more than budgeted revenues, a variance of approximately 0.89%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. For the year ended June 30, 2008, District expenditures in the support services function exceeded the budgeted amount.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$6,628,224, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 3.23% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$357,576.

The original cost of the District's capital assets was \$12,724,703. Governmental funds account for \$12,518,328 with the remainder of \$206,375 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$504,827 at June 30, 2008, compared to \$577,517 reported at June 30, 2007. This decrease is primarily due to the deletions during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 203,592	203,592	0	0	203,592	203,592	0.00%
Buildings	5,298,592	5,448,194	0	0	5,298,592	5,448,194	-2.75%
Improvements other than buildings	621,213	620,078	0	0	621,213	620,078	0.18%
Machinery and equipment	479,282	545,461	25,545	32,056	504,827	577,517	-12.59%
Total	<u>\$ 6,602,679</u>	<u>6,817,325</u>	<u>25,545</u>	<u>32,056</u>	<u>6,628,224</u>	<u>6,849,381</u>	<u>-3.23%</u>

Long-Term Debt

At June 30, 2008, the District had long-term debt outstanding of \$1,424,957 in revenue bonds, land, early retirement, computer leases and a bus lease. There was a 15.89% decrease in debt load from the previous year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

At June 30, 2008, the District had total outstanding revenue bonds payable of \$810,000, as well as, land purchase payable of \$81,102.

The District has a bus lease outstanding of \$298,917, payable from the Capital Projects Fund. Payments for the bus lease will continue through 2012.

The District has two computer leases outstanding of \$39,476, payable from the Physical Plant and Equipment Levy Fund. Payments for the computer leases will continue through 2009.

The District had total outstanding Early Retirement payable from the Special Revenue, Management Levy Fund of \$195,462 at June 30, 2008.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2007-08
Revenue bonds	\$ 810,000	1,180,000	-31.36%
Land	81,102	91,339	-11.21%
Bus lease	298,917	369,534	-19.11%
Computer leases	39,476	48,813	-19.13%
Early retirement	195,462	4,521	4223.42%
Totals	\$ 1,424,957	1,694,207	-15.89%

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District's October 2008 certified enrollment showed a decrease of 23.2 students. This will have a negative impact for the District.
- The District continues to make staff reductions in order to match declining enrollment.
- The District must not continue to allow expenditures to outpace revenues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandra Meierotto, District Secretary, Central Lee Community School District, 2642 Highway 218, Donnellson, Iowa, 52625.

BASIC FINANCIAL STATEMENTS

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP (Note 4)	\$ 2,416,844	0	2,416,844
Other	1,759,226	11,109	1,770,335
Receivables			
Property tax:			
Delinquent	40,223	0	40,223
Succeeding year	2,475,066	0	2,475,066
Income surtax	313,693	0	313,693
Accounts	34,194	0	34,194
Accrued ISCAP interest (Note 4)	14,960	0	14,960
Due from other governments	358,351	0	358,351
Inventories	0	9,886	9,886
Capital assets, net of accumulated depreciation (Note 5)	6,602,679	25,545	6,628,224
Total Assets	14,015,236	46,540	14,061,776
Liabilities			
Accounts payable	143,979	0	143,979
Interest payable	39,782	0	39,782
Salaries and benefits payable	834,428	0	834,428
ISCAP warrants payable (Note 4)	2,402,000	0	2,402,000
ISCAP accrued interest payable (Note 4)	14,695	0	14,695
ISCAP unamortized premium	29,895	0	29,895
Deferred revenue:			
Succeeding year property tax	2,475,066	0	2,475,066
Unearned revenue	0	4,431	4,431
Long-term liabilities: (Note 6)			
Portion due within one year:			
Revenue bonds payable	395,000	0	395,000
Bus Lease	69,750	0	69,750
Computer Lease	39,476	0	39,476
Land	11,055	0	11,055
Early Retirement	39,092	0	39,092
Portion due after one year:			
Revenue bonds payable	415,000	0	415,000
Bus Lease	229,167	0	229,167
Land	70,047	0	70,047
Early Retirement	156,370	0	156,370
Total Liabilities	7,364,802	4,431	7,369,233
Net Assets			
Invested in capital assets, net of related debt	5,373,184	25,545	5,398,729
Restricted for:			
Beginning teacher mentoring	163	0	163
Market factor	313	0	313
Market factor incentives	6,123	0	6,123
Early intervention	16,701	0	16,701
Physical plant and equipment levy	95,572	0	95,572
Capital projects	373,891	0	373,891
Debt service	556,574	0	556,574
Other special revenue purposes	175,201	0	175,201
Unrestricted	52,712	16,564	69,276
Total Net Assets	\$ 6,650,434	42,109	6,692,543

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges	Contributions	Govern- mental Activities	Business- Type Activities	Total
		for Services	and Restricted Interest			
Governmental activities:						
Instruction:						
Regular instruction	\$ 4,586,764	1,008,358	754,404	(2,824,002)	0	(2,824,002)
Special instruction	1,197,205	191,871	49,956	(955,378)	0	(955,378)
Other instruction	1,111,497	280,439	0	(831,058)	0	(831,058)
	<u>6,895,466</u>	<u>1,480,668</u>	<u>804,360</u>	<u>(4,610,438)</u>	<u>0</u>	<u>(4,610,438)</u>
Support services:						
Student services	299,731	0	0	(299,731)	0	(299,731)
Instructional staff services	124,111	0	0	(124,111)	0	(124,111)
Administration services	960,988	0	0	(960,988)	0	(960,988)
Operation and maintenance of plant services	672,845	0	0	(672,845)	0	(672,845)
Transportation services	548,456	2,228	3,452	(542,776)	0	(542,776)
	<u>2,606,131</u>	<u>2,228</u>	<u>3,452</u>	<u>(2,600,451)</u>	<u>0</u>	<u>(2,600,451)</u>
Other expenditures:						
Facilities acquisitions	78,219	0	0	(78,219)	0	(78,219)
Long-term debt interest	67,662	0	0	(67,662)	0	(67,662)
AEA flowthrough	316,552	0	316,552	0	0	0
Depreciation(unallocated)*	236,292	0	0	(236,292)	0	(236,292)
	<u>698,725</u>	<u>0</u>	<u>316,552</u>	<u>(382,173)</u>	<u>0</u>	<u>(382,173)</u>
Total governmental activities	10,200,322	1,482,896	1,124,364	(7,593,062)	0	(7,593,062)
Business-Type activities:						
Support services:						
Operation and maintenance of plant services	2,569	0	0	0	(2,569)	(2,569)
Non-instructional programs:						
Nutrition services	408,144	192,851	178,740	0	(36,553)	(36,553)
Total business-type activities	<u>410,713</u>	<u>192,851</u>	<u>178,740</u>	<u>0</u>	<u>(39,122)</u>	<u>(39,122)</u>
Total	<u>\$ 10,611,035</u>	<u>1,675,747</u>	<u>1,303,104</u>	<u>(7,593,062)</u>	<u>(39,122)</u>	<u>(7,632,184)</u>
General Revenues:						
Property tax levied for:						
General purposes			\$ 2,301,568	0	2,301,568	
Capital outlay			56,555	0	56,555	
Income surtax			333,066	0	333,066	
Local option sales and services			669,090	0	669,090	
Unrestricted state grants			4,162,699	0	4,162,699	
Unrestricted investment earnings			126,486	804	127,290	
Other			37,623	0	37,623	
Total general revenues			<u>7,687,087</u>	<u>804</u>	<u>7,687,891</u>	
Changes in net assets			94,025	(38,318)	55,707	
Net assets beginning of year			<u>6,556,409</u>	<u>80,427</u>	<u>6,636,836</u>	
Net assets end of year			<u>\$ 6,650,434</u>	<u>42,109</u>	<u>6,692,543</u>	

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Debt Service	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 2,416,844	0	0	2,416,844
Other	649,802	556,574	552,850	1,759,226
Receivables:				
Property tax:				
Delinquent	36,630	0	3,593	40,223
Succeeding year	2,202,719	0	272,347	2,475,066
Income surtax	313,693	0	0	313,693
Accounts	33,252	0	942	34,194
Accrued ISCAP interest (Note 4)	14,960	0	0	14,960
Due from other governments	242,299	0	116,052	358,351
Total Assets	\$ 5,910,199	556,574	945,784	7,412,557
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 133,004	0	10,975	143,979
Salaries and benefits payable	834,428	0	0	834,428
ISCAP warrants payable (Note 4)	2,402,000	0	0	2,402,000
ISCAP accrued interest payable (Note 4)	14,695	0	0	14,695
ISCAP unamortized premium	29,895	0	0	29,895
Deferred revenue:				
Succeeding year property tax	2,202,719	0	272,347	2,475,066
Income surtax	313,693	0	0	313,693
Total liabilities	5,930,434	0	283,322	6,213,756
Fund balances:				
Reserved for:				
Debt service	0	556,574	0	556,574
Beginning teacher mentoring	163	0	0	163
Market factor	313	0	0	313
Market factor incentives	6,123	0	0	6,123
Early intervention	16,701	0	0	16,701
Unreserved	(43,535)	0	662,462	618,927
Total fund balances	(20,235)	556,574	662,462	1,198,801
Total Liabilities and Fund Balances	\$ 5,910,199	556,574	945,784	7,412,557

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total fund balances of governmental funds (page 15)	\$ 1,198,801
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	6,602,679
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(39,782)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	313,693
Long-term liabilities, including bonds payable, bus lease, computer leases, early retirement, and land purchase are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,424,957)</u>
Net assets of governmental activites (page 13)	<u>\$ 6,650,434</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,490,948	0	881,315	3,372,263
Tuition	1,113,423	0	0	1,113,423
Other	157,410	13,040	363,132	533,582
State sources	5,027,800	0	0	5,027,800
Federal sources	259,263	0	0	259,263
Total revenues	9,048,844	13,040	1,244,447	10,306,331
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	4,310,065	0	83,843	4,393,908
Special instruction	1,197,589	0	0	1,197,589
Other instruction	809,590	0	301,312	1,110,902
	6,317,244	0	385,155	6,702,399
Support services:				
Student services	235,487	0	63,857	299,344
Instructional staff services	93,346	0	29,901	123,247
Administration services	961,251	0	0	961,251
Operation and maintenance of plant services	575,099	0	114,986	690,085
Transportation services	438,114	0	30,645	468,759
	2,303,297	0	239,389	2,542,686
Other expenditures:				
Facilities acquisitions	0	0	166,044	166,044
Long-term debt:				
Principal	0	490,092	0	490,092
Interest and fiscal charges	0	76,625	0	76,625
AEA flowthrough	316,552	0	0	316,552
	316,552	566,717	166,044	1,049,313
Total expenditures	8,937,093	566,717	790,588	10,294,398
Excess (deficiency) of revenues over (under) expenditures	111,751	(553,677)	453,859	11,933
Other financing sources (uses):				
Proceeds from leases	0	0	29,901	29,901
Sale of equipment	608	0	0	608
Transfers in	0	612,116	0	612,116
Transfers out	0	0	(612,116)	(612,116)
Total other financing sources (uses)	608	612,116	(582,215)	30,509
Net change in fund balances	112,359	58,439	(128,356)	42,442
Fund balance beginning of year	(132,594)	498,135	790,818	1,156,359
Fund balance end of year	\$ (20,235)	556,574	662,462	1,198,801

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2008

Net change in fund balances - total governmental funds (page 17) \$ 42,442

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays, depreciation expense and loss on disposal of assets in the year are as follows:

Capital outlays	\$ 147,710	
Depreciation expense	(351,065)	
Loss on disposal of capital assets	<u>(11,291)</u>	(214,646)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments and issuances were as follows:

Repaid	\$ 490,092	
Issued	<u>(29,901)</u>	460,191

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

8,963

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (11,984)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds, as follows:

Early Retirement		<u>(190,941)</u>
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Changes in net assets of governmental activities (page 14) \$ 94,025

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

	<u>School Nutrition</u>
Assets	
Cash and pooled investments	\$ 11,109
Inventories	9,886
Capital assets, net of accumulated depreciation(Note 5)	25,545
Total Assets	<u>46,540</u>
Liabilities	
Unearned revenue	4,431
Total Liabilities	<u>4,431</u>
Net Assets	
Invested in capital assets	25,545
Unrestricted	16,564
Total Net Assets	<u><u>\$ 42,109</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2008

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 192,851
Operating expenses:	
Support services:	
Operation and maintenance of plant services	
Services	2,569
Non-instructional programs:	
Food service operations:	
Salaries	157,401
Benefits	20,521
Services	23,835
Supplies	199,876
Depreciation	6,511
	408,144
Total operating expenses	410,713
Operating loss	(217,862)
Non-operating revenues:	
State sources	5,207
Federal sources	173,533
Interest income	804
Total non-operating revenues	179,544
Change in net assets	(38,318)
Net assets beginning of year	80,427
Net assets end of year	\$ 42,109

SEE NOTES TO BASIC FINANCIAL STATEMENT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

Exhibit I

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 192,426
Cash received from miscellaneous operating activities	398
Cash payments to employees for services	(177,922)
Cash payments to suppliers for goods or services	(195,081)
Net cash used in operating activities	<u>(180,179)</u>
Cash flows from non-capital financing activities:	
State grants received	5,207
Federal grants received	148,966
Net cash provided by non-capital financing activities	<u>154,173</u>
Cash flows from investing activities:	
Interest on investments	<u>804</u>
Net decrease in cash and cash equivalents	(25,202)
Cash and cash equivalents at beginning of year	<u>36,311</u>
Cash and cash equivalents at end of year	<u><u>\$ 11,109</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (217,862)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	24,567
Depreciation	6,511
Decrease in inventories	6,632
Decrease in unearned revenue	(27)
Net cash used in operating activities	<u><u>\$ (180,179)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ 11,109</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received Federal commodities valued at \$24,567.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

(1) **Summary of Significant Accounting Policies**

The Central Lee Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Donnellson, Iowa, and the predominate agricultural territory in Lee County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Central Lee Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Central Lee Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Lee County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary financial statements are reported using the economic resources measurement focus.

The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services,

administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded

as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable- Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures in the support services function exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's had no investments at June 30, 2008.

(3) **Transfers**

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue, Physical Plant and Equipment Levy	\$ 42,118
Debt Service	Capital Projects	569,998
Total		<u>\$ 612,116</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2008 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08B	1/23/08	1/23/09	\$ 961,075	14,408	958,000	14,271
2008-09A	6/26/08	6/25/09	1,455,769	552	1,444,000	424
			<u>\$ 2,416,844</u>	<u>14,960</u>	<u>2,402,000</u>	<u>14,695</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2008 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2007-08A	\$ 0	980,000	980,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.500%	5.448%
2007-08B	3.750%	3.451%
2008-09A	3.500%	3.469%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 203,592	0	0	203,592
Total capital assets not being depreciated	203,592	0	0	203,592
Capital assets being depreciated:				
Buildings	8,529,544	25,448	0	8,554,992
Improvements other than buildings	1,335,169	62,377	0	1,397,546
Machinery and equipment	2,808,363	59,885	506,050	2,362,198
Total capital assets being depreciated	12,673,076	147,710	506,050	12,314,736
Less accumulated depreciation for:				
Buildings	3,081,350	175,050	0	3,256,400
Improvements other than buildings	715,091	61,242	0	776,333
Machinery and equipment	2,262,902	114,773	494,759	1,882,916
Total accumulated depreciation	6,059,343	351,065	494,759	5,915,649
Total capital assets being depreciated, net	6,613,733	(203,355)	11,291	6,399,087
Governmental activities capital assets, net	\$ 6,817,325	(203,355)	11,291	6,602,679
Business-type activities:				
Machinery and equipment	\$ 206,375	0	0	206,375
Less accumulated depreciation	174,319	6,511	0	180,830
Business-type activities capital assets, net	\$ 32,056	(6,511)	0	25,545

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 17,558
Special	5,703
Other	1,414

Support services:

Student	387
Instructional staff	864
Administration	3,973
Operation and maintenance of plant	5,177
Transportation	79,697

114,773

Unallocated depreciation

236,292

Total governmental activities depreciation expense

\$ 351,065

Business-type activities:

Food services

\$ 6,511

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Revenue Bond	\$ 1,180,000	0	370,000	810,000	395,000
Bus Lease	369,534	0	70,617	298,917	69,750
Computer Lease	48,813	29,901	39,238	39,476	39,476
Land	91,339	0	10,237	81,102	11,055
Early Retirement	4,521	229,129	38,188	195,462	39,092
Total	\$ 1,694,207	259,030	528,280	1,424,957	554,373

Revenue Bonds Payable

Details of the District's June 30, 2008 revenue bond indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond issue dated January 1, 2001		
		Principal	Interest	Total
2009	4.75-4.80 %	\$ 395,000	34,151	429,151
2010	4.80	415,000	15,000	430,000
Total		\$ 810,000	49,151	859,151

The District has pledged future local option sales and services tax revenues to repay the \$2,900,000 bonds issued in January 2001. The bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District and are payable

through 2010. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds required 63.08% of the local option sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$859,151. For the current year, principal and interest paid on the bonds was \$422,038 and local option sales and services tax revenues were \$669,090.

Bus Lease

Details of the District's June 30, 2008 Bus Lease indebtedness, which is paid from the Physical Plant and Equipment Levy, is as follows:

Year Ending June 30,	Bus Lease dated October 11, 2006			
	Interest Rates	Principal	Interest	Total
2009	4.60 % \$	69,750	13,768	83,518
2010	4.60	72,989	10,528	83,517
2011	4.60	76,333	7,184	83,517
2012	4.60	79,845	3,673	83,518
Total		\$ 298,917	35,153	334,070

Computer Lease

Details of the District's June 30, 2008 Computer Lease indebtedness, which is paid from the Physical Plant and Equipment Levy, is as follows:

Year Ending June 30,	Computer Lease dated May 16, 2006			Computer Lease dated October 1, 2007			Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2009	5.90 % \$	25,106	1,481	8.38 % \$	14,370	1,203	\$ 39,476	2,684

Land Purchase

Details of the District's June 30, 2008 Land Purchase indebtedness, which is paid from the Capital Projects Fund, is as follows:

Year Ending June 30,	Land purchase dated October 1, 2001			
	Interest Rates	Principal	Interest	Total
2009	8.00 % \$	11,055	6,488	17,543
2010	8.00	11,940	5,604	17,544
2011	8.00	12,895	4,649	17,544
2012	8.00	13,927	3,617	17,544
2013	8.00	15,041	2,503	17,544
2014	8.00	16,244	1,300	17,544
Total		\$ 81,102	24,161	105,263

Early Retirement

The District offers a voluntary early retirement plan to its certified and classified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees complete an application which is required to be approved by the Board of Education. Early retirement benefits paid during the year ended June 30, 2008, totaled \$38,188.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007, and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$364,634, \$319,540, \$306,343, respectively, equal to the required contributions for each year.

(8) Risk Management

Central Lee Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$316,552 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Deficit Fund Balance

The District has a deficit unreserved fund balance in the General Fund of \$43,535.

(11) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2008, disbursements in the support services function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Fund				Actual
	Actual	Actual	Actual	Original	Final	Variance
Revenues:						
Local sources	\$ 5,019,268	193,655	5,212,923	4,938,926	4,938,926	273,997
State sources	5,027,800	5,207	5,033,007	5,175,341	5,175,341	(142,334)
Federal sources	259,263	173,533	432,796	470,000	470,000	(37,204)
Total revenues	10,306,331	372,395	10,678,726	10,584,267	10,584,267	94,459
Expenditures:						
Instruction	6,702,399	0	6,702,399	7,722,385	7,722,385	1,019,986
Support services	2,542,686	2,569	2,545,255	2,236,048	2,236,048	(309,207)
Non-instructional programs	0	408,144	408,144	561,943	561,943	153,799
Other expenditures	1,049,313	0	1,049,313	1,215,142	1,215,142	165,829
Total expenditures	10,294,398	410,713	10,705,111	11,735,518	11,735,518	1,030,407
Excess(deficiency) of revenues over(under) expenditures	11,933	(38,318)	(26,385)	(1,151,251)	(1,151,251)	1,124,866
Other financing sources, net	30,509	0	30,509	(413)	(413)	30,922
Excess(deficiency) of revenues and other financing sources over(under) expenditures	42,442	(38,318)	4,124	(1,151,664)	(1,151,664)	1,155,788
Balance beginning of year	1,156,359	80,427	977,139	1,249,769	1,249,769	(272,630)
Balance end of year	\$ 1,198,801	42,109	981,263	98,105	98,105	883,158

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides district expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2008, expenditures in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Capital Projects	Other Nonmajor Governmental Funds
Assets						
Cash and pooled investments:	\$ 15,252	185,123	94,636	295,011	257,839	552,850
Receivables:						
Property tax:						
Current year delinquent	2,657	0	936	3,593	0	3,593
Succeeding year	215,000	0	57,347	272,347	0	272,347
Accounts	942	0	0	942	0	942
Due from other governments	0	0	0	0	116,052	116,052
Total Assets	\$ 233,851	185,123	152,919	571,893	373,891	945,784
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 1,053	9,922	0	10,975	0	10,975
Deferred revenue:						
Succeeding year property tax	215,000	0	57,347	272,347	0	272,347
Total Liabilities	216,053	9,922	57,347	283,322	0	283,322
Fund balances:						
Unreserved:						
Undesignated	17,798	175,201	95,572	288,571	373,891	662,462
Total fund balances	17,798	175,201	95,572	288,571	373,891	662,462
Total liabilities and fund balances	\$ 233,851	185,123	152,919	571,893	373,891	945,784

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2008

	Special Revenue Funds					Total
			Physical			Other
	Manage-	Student	Plant and	Total	Capital	Nonmajor
	ment	Activity	Equipment	Special	Projects	Governmental
	Levy		Levy	Revenue		Funds
REVENUES:						
Local sources:						
Local tax	\$ 155,670	0	56,555	212,225	669,090	881,315
Other	15,528	317,934	26,193	359,655	3,477	363,132
TOTAL REVENUES	171,198	317,934	82,748	571,880	672,567	1,244,447
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	83,843	0	0	83,843	0	83,843
Other instruction	0	301,312	0	301,312	0	301,312
Support services:						
Student support services	63,857	0	0	63,857	0	63,857
Instructional staff services	0	0	29,901	29,901	0	29,901
Operation and maintenance						
of plant services	114,986	0	0	114,986	0	114,986
Student transportation	0	0	30,645	30,645	0	30,645
Other expenditures:						
Facilities acquisitions	0	0	0	0	166,044	166,044
TOTAL EXPENDITURES	262,686	301,312	60,546	624,544	166,044	790,588
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(91,488)	16,622	22,202	(52,664)	506,523	453,859
OTHER FINANCING SOURCES(USES):						
Proceeds from leases	0	0	29,901	29,901	0	29,901
Transfers out	0	0	(42,118)	(42,118)	(569,998)	(612,116)
TOTAL OTHER FINANCING SOURCES(USES)	0	0	(12,217)	(12,217)	(569,998)	(582,215)
NET CHANGE IN FUND BALANCES	(91,488)	16,622	9,985	(64,881)	(63,475)	(128,356)
FUND BALANCE BEGINNING OF YEAR	109,286	158,579	85,587	353,452	437,366	790,818
FUND BALANCE END OF YEAR	\$ 17,798	175,201	95,572	288,571	373,891	662,462

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intra- Fund Transfers	Balance End of Year
All School Play	\$ 3,924	1,385	909	0	4,400
Drama Club	842	1,034	504	0	1,372
Quiz Bowl	15	0	0	0	15
Yearbook	130	4,533	5,267	650	46
Uniform Band Fee	690	0	292	0	398
Milk Machine	404	3,711	2,226	0	1,889
Art Club	894	2,429	2,245	0	1,078
Pep Club	365	2,307	2,573	0	99
AFS Club	3,581	7,180	6,471	0	4,290
Student Council	15,311	13,915	16,574	244	12,896
Spanish Club	2,611	2,898	3,726	0	1,783
Science Club	2,383	198	1,235	0	1,346
Computer Club	163	0	0	0	163
FFA	48,729	47,490	50,182	0	46,037
FCCLA Group	27	0	0	0	27
National Honor Society	249	1,538	1,688	0	99
Class of 2006 Grads	241	0	0	(241)	0
Class of 2009	10	3,870	2,702	(960)	218
Class of 2007	292	0	0	(292)	0
Class of 2010	15	0	0	0	15
Class of 2008	571	83	1,611	960	3
Post Prom Activities	386	49	49	0	386
SAEP-Entrepreneurship	8,289	27,701	4,393	0	31,597
Athletics	804	1,416	8,092	6,500	628
Athletic Activities	5,368	7,894	8,601	(1,900)	2,761
Concessions	6,056	36,629	25,432	(13,500)	3,753
Golf	879	376	2,061	500	(306)
Cross Country	753	778	1,120	756	1,167
Soccer	291	2,134	2,773	1,200	852
Boys Basketball	3,059	7,447	5,873	(1,000)	3,633
Football	6,860	19,170	17,595	(3,800)	4,635
Baseball	1,701	3,245	8,303	4,900	1,543
Boys Track	(121)	1,422	4,778	2,400	(1,077)
Wrestling	2	0	0	0	2
Girls Basketball	2,523	5,124	4,229	0	3,418
Volleyball	1,078	6,596	3,506	(2,000)	2,168
Softball	2,582	2,915	8,067	2,600	30
Girls Track	1,902	1,346	1,443	0	1,805
Cheerleaders	84	4,776	3,085	0	1,775
Dance Team	(1,683)	4,807	5,682	3,100	542

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intra- Fund Transfers	Balance End of Year
Library Club	145	1,552	1,467	0	230
Teachers Pop Fund	2,955	3,490	3,816	0	2,629
HS Student Activities	379	4,152	2,611	684	2,604
Renaissance Program	1,819	7,474	7,113	(96)	2,084
S.A.D.D	239	0	0	0	239
K-8 Conference Fair	1,931	11,886	11,848	(327)	1,642
MS Student Council	3,558	5,292	6,977	48	1,921
MS Student Activities	10,292	28,592	25,086	(4,530)	9,268
MS Football	1,255	1,224	3,973	2,953	1,459
MS Socceer	169	0	0	0	169
MS Volleyball	895	1,087	766	0	1,216
MS Girls Basketball	544	1,210	1,047	0	707
MS Boys Basketball	1,133	1,204	800	0	1,537
MS Girls Track	463	266	701	0	28
MS Boys Track	463	565	1,000	0	28
MS Softball	511	1,073	1,427	700	857
MS Baseball	666	1,030	1,898	800	598
Athletic Resale	247	0	0	0	247
Future Problem Solvers	70	850	4,993	4,143	70
K-8 Faculty Pop	1,361	7,337	7,482	0	1,216
Special Olympics	723	489	607	0	605
Special Needs Field Trips	1,647	1,234	0	0	2,881
Playground	243	0	0	0	243
T.A.G. Club	615	0	85	0	530
Elementary Resale Account	770	1,718	1,263	0	1,225
Elementary Student Activities	1,648	6,563	3,036	8	5,183
Interest Account	1,578	3,250	29	(4,500)	299
Total	\$ 158,579	317,934	301,312	0	175,201

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 3,372,263	3,348,880	3,136,981	3,189,323	3,497,010
Tuition	1,113,423	981,596	803,065	724,243	595,298
Other	533,582	529,619	482,003	390,920	383,090
Intermediate sources	0	0	0	0	2,834
State sources	5,027,800	4,861,274	4,531,530	4,466,282	4,003,832
Federal sources	259,263	296,527	268,240	376,006	292,168
Total	\$ 10,306,331	10,017,896	9,221,819	9,146,774	8,774,232
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$ 4,393,908	4,261,021	4,175,716	3,792,917	3,777,269
Special instruction	1,197,589	1,108,147	988,254	1,210,190	1,094,013
Other instruction	1,110,902	1,089,480	912,535	942,480	802,322
Support services:					
Student services	299,344	280,908	289,636	276,961	221,495
Instructional staff services	123,247	235,853	135,997	151,639	109,362
Administration services	961,251	886,861	885,935	776,587	762,246
Operation and maintenance of plant services	690,085	679,850	686,548	639,309	592,371
Transportation services	468,759	778,867	324,288	438,627	349,528
Other expenditures:					
Facilities acquisitions	166,044	204,456	202,602	332,966	173,956
Long-term debt:					
Principal	490,092	441,118	392,590	369,686	346,127
Interest	46,625	79,567	97,312	117,521	139,702
AEA flow-through	316,552	310,819	289,512	281,037	282,203
Total	\$ 10,264,398	10,356,947	9,380,925	9,329,920	8,650,594

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
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Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Central Lee Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Central Lee Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 17, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Central Lee Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Central Lee Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Central Lee Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Central Lee Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Central Lee Community School District's financial statements that is more than inconsequential will not be prevented or detected by Central Lee Community School District's internal control. We consider the deficiencies in internal control described in Part I of the Findings Related to the General Purpose Financial Statements.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Central Lee Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-08 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Lee Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Central Lee Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Central Lee Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Central Lee Community School District and other parties to whom Central Lee Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Central Lee Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

February 17, 2009

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

- I-A-08 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-08 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

More specifically, library fines and lost book proceeds should be placed in the General Fund.

Transactions in the Playground account are more appropriately accounted for in the PPEL Fund or the General Fund. This account does not appear to be cocurricular or extra curricular in nature so it does not meet the criteria of the Student Activity Fund. This account should be transferred to the PPEL Fund or the General Fund.

If the proceeds in the K-8 Faculty Pop and Teacher's Pop Fund are truly controlled by the faculty and administration, these accounts should not be contained within the Activity Fund because they do not appear to be a student run organization. The accounts used by the teachers may be more appropriate in the General Fund.

Donations made to a District should be placed in the most appropriate place based upon the donor request. Box Tops for Education and Target donations are intended for instructional supplies. The most logical place to record the revenue and subsequent purchase of instructional supplies would be the General Fund. Future donations from Box Tops for Education and Target should be recorded in the General Fund for use as determined by the District's Board of Directors.

Response - We will comply with these recommendations.

Conclusion - Response accepted.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting:

II-A-08 Certified Budget - District expenditures in the support services function exceeded the amount budgeted for the year ended June 30, 2008.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

II-B-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-08 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Larry Engler, Board Member	Blade sharpening	\$117

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with the Board Member do not appear to be a conflict of interest.

II-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-08 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students reported on Line 1 was overstated by one student. The number of students which were tuitioned out reported on Line 3 was understated by one student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will comply with these recommendations.

Conclusion - Response accepted.

II-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposits and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-08 Financial Condition - We noted during our audit that the District has a deficit unreserved fund balance of \$43,535 in the General Fund.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - The District will continue to monitor the General Fund.

Conclusion - Response accepted.